

ORIGINAL



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - CHAIRMAN
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

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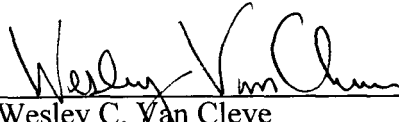
IN THE MATTER OF THE APPLICATION OF
AVRA WATER CO-OP, INC. FOR A
DETERMINATION OF THE FAIR VALUE OF
ITS UTILITY PROPERTY AND FOR AN
INCREASE IN ITS WATER RATES AND
CHARGES FOR UTILITY SERVICES.

DOCKET NO. W-02126A-11-0480

**NOTICE OF FILING
STAFF'S SURREBUTTAL TESTIMONIES**

The Utilities Division ("Staff") of the Arizona Corporation Commission ("Commission") hereby files Surrebuttal Testimonies of Gerald W. Becker and Marlin Scott, Jr., in the above-captioned matter.

RESPECTFULLY SUBMITTED this 16th day of October, 2012.

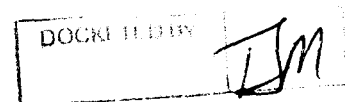

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Original and thirteen (13) copies of
the foregoing filed this 16th day of
October, 2012, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Arizona Corporation Commission
DOCKETED

OCT 16 2012



1 Copy of the foregoing mailed this
2 16th day of October, 2012, to:

3 Robert Metli
4 MUNGER, CHADWICK, PLC
5 2398 East Camelback Road, Suite 240
6 Phoenix, Arizona 85016

7 B. Osorio

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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE

Chairman

BOB STUMP

Commissioner

SANDRA D. KENNEDY

Commissioner

PAUL NEWMAN

Commissioner

BRENDA BURNS

Commissioner

IN THE MATTER OF THE APPLICATION OF)
AVRA WATER COOPERATIVE, INC. FOR A)
PERMANENT RATE INCREASE.)
_____)

DOCKET NO. W-02126A-11-0480

SURREBUTTAL

TESTIMONY

OF

GERALD W. BECKER

PUBLIC UTILITIES ANALYST V

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 16, 2012

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EXECUTIVE SUMMARY
AVRA WATER COOPERATIVE, INC.
DOCKET NO. W-02126A-11-0480

The Surrebuttal Testimony of Staff witness Gerald W. Becker addresses the following issues:

1. Property Tax Expense – Staff agrees with the Co-operative’s concern regarding the incorrect inclusion of CWIP balance in Staff’s property tax expense calculations.
2. Revenue Annualization – Staff agrees with the Co-operative’s concern regarding the need to adjust certain expenses related to Staff’s recommended adjustment to the Co-operative’s revenue annualization amount.
3. Revenue Annualization – Staff continues to recommend rejection of the Co-operative’s proposed adjustment for revenue annualization.
4. Rate Case Expense – Staff’s recommendation on its rate case expense is unchanged.
5. Rate Design – Staff disagrees with the Co-op’s allegations that certain break-over and commodity rate information is missing from Staff’s Direct Testimony.
6. Miscellaneous Charges – Staff has revised its position regarding Miscellaneous Charges.
7. Service Line and Meter Charges – Staff corrects the inconsistency between the Service Line and Meter charges for 1 inch meters as reflected in Schedule GWB-15 to reflect the intended rates and charges as reflected in Staff’s Engineering report.

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is Gerald Becker. I am a Public Utilities Analyst V employed by the Arizona Corporation Commission ("Commission") in the Utilities Division ("Staff"). My business address is 1200 West Washington Street, Phoenix, Arizona 85007.

Q. Are you the same Gerald Becker who previously submitted direct testimony in this case?

A. Yes, I am.

PURPOSE OF SURREBUTTAL TESTIMONY

Q. What is the purpose of your Surrebuttal testimony in this proceeding?

A. The purpose of my Surrebuttal testimony in this proceeding is to respond, on behalf of Staff, to the rebuttal testimony of Mr. Thomas J. Bourassa, who represents Avra Water Co-operative, Inc. - ("Avra" or "Co-op").

Q. Do you attempt to address every issue raised by the Co-op in its rebuttal testimony?

A. No. I limit my discussion to certain issues as outlined below. My silence on any particular issue raised in the Co-op's rebuttal testimony does not indicate that Staff agrees with the Co-op's stated rebuttal position on the issue. I rely on my direct testimony unless modified by this Surrebuttal testimony.

Q. What issues will you address?

A. I address the issues listed below that are discussed in the rebuttal testimony of Co-op witness Mr. Thomas J. Bourassa. I also sponsor the attached schedules which are updated to reflect Staff's Surrebuttal position.

1 The Surrebuttal testimony of Staff witness Gerald W. Becker addresses the following
2 issues:

- 3
- 4 1. Property Tax Expense – Staff agrees with the Co-operative’s concern regarding the
- 5 incorrect inclusion of CWIP balance in Staff’s property tax expense calculations.
- 6 2. Revenue Annualization – Staff agrees with the Co-operative’s concern regarding the need
- 7 to adjust certain expenses related to Staff’s recommended adjustment to the Co-
- 8 operative’s revenue annualization amount.
- 9 3. Revenue Annualization – Staff continues to recommend rejection of the Co-operative’s
- 10 proposed adjustment for revenue annualization.
- 11 4. Rate Case Expense – Staff’s recommendation on its rate case expense is unchanged.
- 12 5. Rate Design – Staff disagrees with the Co-op’s allegations that certain break-over and
- 13 commodity rate information is missing from Staff’s direct testimony.
- 14 6. Miscellaneous Charges – Staff has revised its position regarding Miscellaneous Charges.
- 15 7. Service Line and Meter Charges – Staff corrects the inconsistency between the Service
- 16 Line and Meter charges for 1 inch meters as reflected in Schedule GWB-15 to reflect the
- 17 intended rates and charges as reflected in Staff’s Engineering report.
- 18

19 SUMMARY OF RECOMMENDATIONS

20 **Q. Please provide a summary of Staff’s Surrebuttal recommendations.**

21 A. Based on the modification to Staff’s original position, Staff recommends total annual
22 operating revenue of \$1,798,019 and operating income of \$305,982 for a 17.02 percent
23 operating margin. Staff’s recommended revenue represents an increase of \$151,474 or
24 9.20 percent over Staff adjusted test year revenue of \$1,646,545. See Surrebuttal
25 Schedule GWB-1.

27 RESPONSE TO REBUTTAL TESTIMONY OF THOMAS J. BOURASSA

28 Property Tax Expense

29 **Q. Does Staff agree with the Co-op’s concern regarding Staff’s calculation of property**
30 **tax expense?**

31 A. Yes. Staff agrees that it incorrectly used \$105,463 of construction work in progress in its
32 property tax calculation. Staff has removed this from its corrected calculation of property
33 tax expense as shown on Surrebuttal Schedules GWB-10, GWB-11, and GWB-16.

Revenue Annualization – Associated Expenses

Q. Does Staff agree with the Co-op's concern that Staff did not adjust for associated Operating & Maintenance ("O&M") expenses when it recommended rejection of the Co-op's annualization adjustment?

A. Yes. Staff agrees with the Co-op that it should have adjusted associated O&M when it recommended rejection of Avra's annualization adjustment, and this is reflected in the adjustment reflected on Surrebuttal Schedule GWB-12.

Revenue Annualization

Q. Does Staff continue to disagree with the Co-op's revenue annualization adjustment?

A. Yes. Even though, the Co-op provides a significant amount of additional discussion regarding the subject of seasonal rates in its rebuttal testimony, it does not provide any additional information to reasonably support its original position. In addition, the Co-op further reinforces Staff's position in its direct testimony. On page 11 of his rebuttal testimony, Mr. Bourassa states, "The June spike in the bill counts and in the bill count revenues was the result of the Company (sic) consolidating its billing cycles, not a major influx of additional customers in one month and subsequent exodus of customers one month later." The Co-op's own statements suggest a static customer base. Further, the Co-op seems overly concerned with Staff's characterization of the customer base as 'seasonal'. Regardless of what the correct characterization might be for test year activity, the Co-op admits to anomalous activity in its test year data, and the Co-op's extensive discussion of this topic in rebuttal testimony does nothing to address the error in their approach to revenue annualization. Therefore, Staff continues to believe that the approach used by the Co-op to calculate revenue annualization yields a faulty result in this instance. Staff's recommendation properly addresses this issue.

1 **Q. Does Staff have additional observations or comments?**

2 A. First, Staff notes that the Co-op's rebuttal testimony includes a discussion on regression
3 analysis which is based on information from 2009 through December 31, 2011, just 4
4 months after the end of test year. Arizona is a historical test year state which allows for
5 known and measurable changes subsequent to the end of the test year. The regression
6 analysis presented that only attempts to present information 4 months beyond the end of
7 the test year does not support a known and measurable change subsequent to the test year
8 and should be rejected.

9
10 In its Rebuttal testimony, the Co-op also includes a copy of Staff's response to the Co-
11 op's data request which shows the anomalous billing activity of 2,913 bills in June 2011,
12 for 5/8 inch customers. Also for 5/8 inch customers, the first month of the test year began
13 with 2,357 bills and ended with 2,362 bills. The chart also shows that activity during the
14 test year excluding June 2011 bills. The test year monthly billings ranged from a low of
15 2,342 in December 2010, to a high of 2,362 in August 2011, the end of the test year.
16 Considering the net increase in customers from the first month of the test year (2,357
17 customers) to the last month in the test year (2,367 customers), or *growth* of 5 customers
18 and 60 bills annually, the Co-op's proposal to recognize the *contraction* of 539 bills¹ in its
19 customer base should be rejected.

20
21 **Rate Case Expense**

22 **Q. Has Staff changed its recommendation regarding rate case expense?**

23 A. No. Staff has not changed its recommendation since filing its direct testimony.
24

¹ Total contraction proposed by the Co-op is 539 bills for all customers; of these 471 bills are for the 5/8 inch customers only.

Rate Design including Service Line, Meter and Miscellaneous Charges

Monthly Minimums and Commodity Rates

Q. Has Staff changed its rate design regarding its recommended monthly minimums and commodity rates?

A. No. Since the revenue requirements have not changed appreciably, Staff continues to recommend the rates for monthly minimums and commodity charges as depicted in its direct testimony. However, Staff has corrected the Service Line and Meter Charges for 1 inch meters and has made some modifications to Miscellaneous Charges as shown on Surrebuttal Schedule GWB-15.

Further, Staff is unable to locate missing information regarding break-over points and commodity charges as alleged by the Co-op.²

Service Line and Meter Installation Charges

Q. Has Staff corrected the Service Line and Meter Installation charges for customers with a 1 inch meter?

A. Yes. Staff has made this correction on Surrebuttal Schedule GWB-15, page 2 of 2, to reflect the rates recommended in Staff's Engineering Report.

Miscellaneous Charges

Q. Has Staff changed its recommended Miscellaneous charge?

A. Yes. The Co-op proposes a reconnection fee of \$50 based on its belief that reconnection fees are typically twice the usual establishment fee. Staff is unaware of other instances where the reconnection fee is twice the establishment fee but concurs with the Co-op that

² See Rebuttal Testimony of Thomas J. Bourassa, 20 at 5-6.

1 a higher amount might help to discourage delinquencies. Staff has revised its
2 recommended reconnection fee to \$35. See Surrebuttal Schedule GWB-15, page 2 of 2.

3
4 Staff concurs that the line "Meter Test, if correct" is duplicative and has removed it from
5 its Surrebuttal Schedule GWB-15, page 2 of 2.

6
7 Staff has modified the line "Meter Test – Remove & Test Meter (Customer Request)" to
8 read "Meter Test – Remove & Test Meter (Customer Request), if correct".

9
10 Staff concurs that its recommended rate for "Hourly Charge for after hours service at
11 Customer Request" should be reflected as "N/A", as this activity is also reflected in the
12 line above "Service Charge – After Hours at Customer Request".

13
14 **Q. Does this conclude your Surrebuttal testimony?**

15 **A.** Yes, it does.
16

AVRA WATER CO-OP, INC

Docket No. W-02126A-11-0480

Test Year Ended August 31, 2011

SURREBUTTAL TESTIMONY OF GERALD BECKER

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GWB- 6	NOT USED
GWB- 7	NOT USED
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REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY FAIR VALUE	(C) STAFF ORIGINAL COST	(D) STAFF FAIR VALUE
1	Adjusted Rate Base	\$ 6,560,563	\$ 6,560,563	\$ 6,560,563	\$ 6,560,563
2	Adjusted Operating Income (Loss)	\$ 122,568	\$ 122,568	\$ 157,675	\$ 157,675
3	Current Rate of Return (L2 / L1)	1.87%	1.87%	2.40%	2.40%
4	Required Rate of Return	4.66%	4.66%	4.66%	4.66%
5	Required Operating Income (L4 * L1)	\$ 305,982	\$ 305,982	\$ 305,982	\$ 305,982
6	Operating Income Deficiency (L5 - L2)	\$ 183,414	\$ 183,414	\$ 148,307	\$ 148,307
7	Gross Revenue Conversion Factor	1.0214	1.0214	1.0214	1.0214
8	Required Revenue Increase (L7 * L6)	\$ 187,331	\$ 187,331	\$ 151,474	\$ 151,474
9	Test Year Revenues	\$ 1,612,561	\$ 1,612,561	\$ 1,646,545	\$ 1,646,545
10	Proposed Annual Revenue (L8 + L9)	\$ 1,799,892	\$ 1,799,892	\$ 1,798,019	\$ 1,798,019
11	Required Increase in Revenue (%)	11.62%	11.62%	9.20%	9.20%
12	Rate of Return on Common Equity (%)	N/A	N/A	N/A	N/A

References:

Column [A]: Company Schedule A-1

Column (B): Company Schedule A-1

Column (C): Staff Schedules GWB-2, GWB-3, and GWB-10

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	(A)	(B)	(C)
<u>Calculation of Gross Revenue Conversion Factor:</u>				
1	Revenue	100.0000%		
2	Uncollectible Factor (Line 11)	0.0000%		
3	Revenues (L1 - L2)	100.0000%		
4	Combined Federal and State Income Tax and Property Tax Rate (Line 23)	2.0911%		
5	Subtotal (L3 - L4)	97.9089%		
6	Revenue Conversion Factor (L1 / L5)	1.021358		
<u>Calculation of Uncollectible Factor:</u>				
7	Unity	100.0000%		
8	Combined Federal and State Tax Rate (Line 17)	0.0000%		
9	One Minus Combined Income Tax Rate (L7 - L8)	100.0000%		
10	Uncollectible Rate	0.0000%		
11	Uncollectible Factor (L9 * L10)		0.0000%	
<u>Calculation of Effective Tax Rate:</u>				
12	Operating Income Before Taxes (Arizona Taxable Income)	100.0000%		
14	Federal Taxable Income (L12 - L13)	100.0000%		
15	Applicable Federal Income Tax Rate (Line 44)	0.0000%		
16	Effective Federal Income Tax Rate (L14 x L15)	0.0000%		
17	Combined Federal and State Income Tax Rate (L13 + L16)		0.0000%	
<u>Calculation of Effective Property Tax Factor</u>				
18	Unity	100.0000%		
19	Combined Federal and State Income Tax Rate (L17)	0.0000%		
20	One Minus Combined Income Tax Rate (L18-L19)	100.0000%		
21	Property Tax Factor (GWB-17, L24)	2.0911%		
22	Effective Property Tax Factor (L20*L21)		2.0911%	
23	Combined Federal and State Income Tax and Property Tax Rate (L17+L22)			2.0911%
24	Required Operating Income (Schedule GWB-1, Line 5)	\$ 305,982		
25	Adjusted Test Year Operating Income (Loss) (Schedule GWB-10, Line 42)	\$ 157,675		
26	Required Increase in Operating Income (L24 - L25)		\$ 148,307	
27	Income Taxes on Recommended Revenue (Col. (F), L52)	\$ -		
28	Income Taxes on Test Year Revenue (Col. (C), L52)	\$ -		
29	Required Increase in Revenue to Provide for Income Taxes (L27 - L28)		\$ -	
30	Required Revenue Increase (Schedule GWB-1, Line 8)	\$ 151,474		
31	Uncollectible Rate (Line 10)	0.0000%		
32	Uncollectible Expense on Recommended Revenue (L30 * L31)	\$ -		
33	Adjusted Test Year Uncollectible Expense	\$ -		
34	Required Increase in Revenue to Provide for Uncollectible Exp.		\$ -	
35	Property Tax with Recommended Revenue (GWB-18, Line 20)	\$ 108,844		
36	Property Tax on Test Year Revenue (GWB-18, Col A, L17)	\$ 105,676		
37	Increase in Property Tax Due to Increase in Revenue (L35-L36)		\$ 3,167	
38	Total Required Increase in Revenue (L26 + L29 + L34+ L37)		\$ 151,474	

RATE BASE - ORIGINAL COST

LINE NO.	(A) COMPANY AS FILED	(B) STAFF ADJUSTMENTS	(C) STAFF AS ADJUSTED
1	Plant in Service	\$ 15,919,009	\$ 15,919,009
2	Less: Accumulated Depreciation	5,134,381	5,134,381
3	Net Plant in Service	<u>\$ 10,784,628</u>	<u>\$ 10,784,628</u>
<u>LESS:</u>			
4	Contributions in Aid of Construction (CIAC)	\$ 5,196,263	\$ 5,196,263
5	Less: Accumulated Amortization	1,379,503	1,379,503
6	Net CIAC	<u>3,816,760</u>	<u>3,816,760</u>
7	Advances in Aid of Construction (AIAC)	301,520	357,222
8	Imputed Reg AIAC	-	-
9	Service Line and Meter Installation Charges	55,702	(55,702)
10	Accumulated Deferred Income Tax Credits	-	-
11	Customer Meter Deposits	50,084	50,084
<u>ADD:</u>			
12	Accumulated Deferred Income Tax Debits	-	-
13	Cash Working Capital	-	-
14	Prepayments	-	-
15	Supplies Inventory	-	-
16	Projected Capital Expenditures	-	-
17	Deferred Debits	-	-
18	Purchase Wastewater Treatment Charges	-	-
19	Original Cost Rate Base	<u>\$ 6,560,563</u>	<u>\$ 6,560,563</u>

References:

Column (A), Company Schedule B-2
Column (B): Schedule GWB-4
Column (C): Column (A) + Column (B)
Column (C): Lines 7 & 9: See Testimony GWB

SUMMARY OF ORIGINAL COST RATE BASE ADJUSTMENTS

LINE NO.	ACCT. NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Reclassification	[I] STAFF ADJUSTED
		<u>PLANT IN SERVICE:</u>			
1	301	Organization Cost	8,685		8,685
2	302	Franchise Cost	-		-
3	303	Land and Land Rights	198,608		198,608
4	304	Structures and Improvements	402,511		402,511
5	305	Collecting and Impounding Res.	242,095		242,095
6	306	Lake River and Other Intakes	-		-
7	307	Wells and Springs	3,340,637		3,340,637
8	308	Infiltration Galleries and Tunnels	-		-
9	309	Supply Mains	-		-
10	310	Power Generation Equipment	-		-
11	311	Electric Pumping Equipment	968,217		968,217
12	320	Water Treatment Equipment	-		-
13	320.1	Water Treatment Plant	-		-
		Chemical Solution Feeders	97,660		97,660
1	330	Dist. Reservoirs & Standpipe	-		-
2	330.1	Storage tanks	1,922,659		1,922,659
3	330.2	Pressure Tanks	-		-
4	331	Trans. and Dist. Mains	6,992,548		6,992,548
5	333	Services	512,676		512,676
6	334	Meters	509,219		509,219
7	335	Hydrants	29,829		29,829
8	336	Backflow Prevention Devices	-		-
9	339	Other Plant and Misc. Equip.	109,280		109,280
10	340	Office Furniture and Fixtures	223,224		223,224
11	340.1	Computers and Software	-		-
12	341	Transportation Equipment	193,777		193,777
13	342	Stores Equipment	-		-
14	343	Tools and Work Equipment	122,220		122,220
15	344	Laboratory Equipment	-		-
16	345	Power Operated Equipment	-		-
17	346	Communications Equipment	45,166		45,166
18	347	Miscellaneous Equipment	-		-
19	348	Other Tangible Plant	-		-
20			-		-
21		Total Plant in Service	<u>15,919,009</u>	<u>-</u>	<u>15,919,009</u>
22					
23		Accumulated Depreciation	5,134,381		5,134,381
24		Net Plant in Service	<u>\$ 10,784,628</u>	<u>\$ -</u>	<u>\$ 10,784,628</u>
25					
26		<u>LESS:</u>			
27		Contributions in Aid of Construction (CIAC)	\$ 5,196,263		5,196,263
28		Less: Accumulated Amortization	1,379,503	-	1,379,503
29		Net CIAC (L63 - L64)	<u>3,816,760</u>	<u>-</u>	<u>3,816,760</u>
30		Advances in Aid of Construction (AIAC)	301,520	55,702	357,222
31		Service Line and Meter Installation Charges	55,702	(55,702)	-
32			-	-	-
33		Accumulated Deferred Income Tax Credits			-
34		Customer Meter Deposits	50,084		50,084
35		<u>ADD:</u>			-
36		Accumulated Deferred Income Tax Debits			-
37		Working Capital Allowance			-
38		Pumping Power		-	-
39		Purchase Wastewater Treatment Charges		-	-
40		Material and Supplies Inventory		-	-
41		Prepayments		-	-
42		Projected Capital Expenditures	-	-	-
43		Deferred Debits		-	-
44		Original Cost Rate Base	<u>\$ 6,560,563</u>	<u>\$ -</u>	<u>\$ 6,560,563</u>

OPERATING INCOME STATEMENT - TEST YEAR AND STAFF RECOMMENDED

LINE NO.	DESCRIPTION	[A] COMPANY TEST YEAR AS FILED	[B] STAFF TEST YEAR ADJUSTMENTS	[C] STAFF TEST YEAR AS ADJUSTED	[D] STAFF RECOMMENDED CHANGES	[E] STAFF RECOMMENDED
1	Water Revenues	\$ 1,571,783	\$ 33,984	\$ 1,605,767	\$ 151,474	\$ 1,757,241
2	Other Revenues	40,778	-	40,778	-	40,778
3	Other	-	-	-	-	-
4	Total Operating Revenues	\$ 1,612,561	\$ 33,984	\$ 1,646,545	\$ 151,474	\$ 1,798,019
5	Salaries and Wages	\$ 409,212	\$ -	\$ 409,212	\$ -	\$ 409,212
6	Employee Pensions \$ Benefits	124,256	-	124,256	-	124,256
7	Purchased Water	-	-	-	-	-
8	Purchased Power	127,984	3,412	131,396	-	131,396
9	Fuel for Power Production	-	-	-	-	-
10	Chemicals	1,132	-	1,132	-	1,132
11	Materials and Supplies	10,360	-	10,360	-	10,360
		7,540	-	7,540	-	7,540
1	Contractual Services - Engineering	12,699	-	12,699	-	12,699
2	Contractual Services - Accounting	51,694	-	51,694	-	51,694
3	Contractual Services - Legal	4,812	-	4,812	-	4,812
4	0	11,062	-	11,062	-	11,062
5	Contractual Services - Other	67,405	-	67,405	-	67,405
6	Rents	10,726	-	10,726	-	10,726
7	Transportation Expenses	73,511	-	73,511	-	73,511
8	Insurance - Vehicle	6,161	-	6,161	-	6,161
9	Insurance - General Liability	11,800	-	11,800	-	11,800
10	Insurance - Workers Comp.	6,317	-	6,317	-	6,317
11	Insurance - Other	16,829	-	16,829	-	16,829
12	Advertising Expense	1,297	-	1,297	-	1,297
13	Water Resource Conservation	634	-	634	-	634
14	Reg. Comm. Exp. - Rate Case	20,000	(6,667)	13,333	-	13,333
15	Bade Debt Expense	6,221	-	6,221	-	6,221
16	Miscellaneous Expense	45,693	-	45,693	-	45,693
17	Depreciation Expense	323,081	-	323,080	-	323,080
18	Taxes Other Than Income	36,024	-	36,024	-	36,024
19	Property Taxes	103,545	2,132	105,676	3,167	108,844
20	Income Tax	-	-	-	-	-
21						
22	Total Operating Expenses	1,489,993	(1,123)	1,488,870	3,167	1,492,037
23	Operating Income (Loss)	\$ 122,568	\$ 35,107	\$ 157,675	\$ 148,307	\$ 305,982

References:

Column (A): Company Schedule C-1
Column (B): Schedule GWB 11
Column (C): Column (A) + Column (B)
Column (D): Schedules GWB 2, Lines 29, 34 and 37
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENTS - TEST YEAR

LINE NO.	DESCRIPTION	[A] COMPANY AS FILED	[B] Rev. Annualization Rate ADJ #1 GWB-12	[C] Case Exp ADJ #2 GWB-13	[D] Property Taxes ADJ #4 GWB-13	[E] STAFF ADJUSTED
1	Water Revenues	\$ 1,571,783	\$ 33,984	\$ -	\$ -	\$ 1,605,767
2	Other Revenues	40,778	-	-	-	40,778
3	Other	-	-	-	-	-
4	Total Operating Revenues	\$ 1,612,561	\$ 33,984	\$ -	\$ -	\$ 1,646,545
5	Salaries and Wages	\$ 409,212	\$ -	\$ -		\$ 409,212
6	Employee Pensions \$ Benefits	124,256	-	-	\$ -	124,256
7	Purchased Water	-	-	-	-	-
8	Purchased Power	127,984	3,412	-	-	131,396
9	Fuel for Power Production	-	-	-	-	-
10	Chemicals	1,132	-	-	-	1,132
11	Materials and Supplies	10,360	-	-	-	10,360
12	Office Supplies and Expense	7,540	-	-	-	7,540
13	Contractual Services - Engineering	12,699	-	-	-	12,699
14	Contractual Services - Accounting	51,694	-	-	-	51,694
15	Contractual Services - Legal	4,812	-	-	-	4,812
		11,062	-	-	-	11,062
1	Contractual Services - Other	67,405	-	-	-	67,405
2	Rents	10,726	-	-	-	10,726
3	Transportation Expenses	73,511	-	-	-	73,511
4	Insurance - Vehicle	6,161	-	-	-	6,161
5	Insurance - General Liability	11,800	-	-	-	11,800
6	Insurance - Workers Comp.	6,317	-	-	-	6,317
7	Insurance - Other	16,829	-	-	-	16,829
8	Advertising Expense	1,297	-	-	-	1,297
9	Water Resource Conservation	634	-	-	-	634
10	Reg. Comm. Exp. - Rate Case	20,000	-	(6,667)	-	13,333
11	Bade Debt Expense	6,221	-	-	-	6,221
12	Miscellaneous Expense	45,693	-	-	-	45,693
13	Depreciation Expense	323,081	-	-	-	323,080
14	Taxes Other Than Income	36,024	-	-	-	36,024
15	Property Taxes	103,545	-	-	2,132	105,676
16	Income Tax	-				-
17					-	-
18						
19	Total Operating Expenses	\$ 1,489,993	\$ 3,412	\$ (6,667)	\$ 2,132	\$ 1,488,870
20	Operating Income (Loss)	\$ 122,568	\$ 30,572	\$ 6,667	\$ (2,132)	\$ 157,675

References:

Column (A): Company Schedule C-1

AVRA WATER CO-OP, INC
Docket No. W-02126A-11-0480
Test Year Ended August 31, 2011

Schedule GWB-12
Surrebuttal

OPERATING INCOME ADJUSTMENT #1 - REVENUE ANNUALIZATION

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>[A] COMPANY PROPOSED</u>	<u>[B] STAFF ADJUSTMENTS</u>	<u>[C] STAFF RECOMMENDED</u>
1	Revenues	\$ (33,984)	\$ 33,984	\$ -
2	Purchased Power Expense	\$ 127,984	\$ 3,412	\$ 131,396

References:

Column (A), Company Schedule C-2, Page 8

Column (B): Testimony GWB

Column (C): Column (A) + Column (B)

AVRA WATER CO-OP, INC
Docket No. W-02126A-11-0480
Test Year Ended August 31, 2011

Schedule GWB-13
Surrebuttal

OPERATING INCOME ADJUSTMENT #2 - RATE CASE EXPENSE

LINE NO.	DESCRIPTION	[A] COMPANY PROPOSED	[B] STAFF ADJUSTMENTS	[C] STAFF RECOMMENDED*
1		\$ 20,000	\$ (6,667)	\$ 13,333

References:

Column (A), Company Workpapers
Column (B): Testimony GWB
Column (C): Column (A) + Column (B)

OPERATING INCOME ADJUSTMENT #3 - PROPERTY TAX EXPENSE GRCF COMPONENT

LINE NO.	DESCRIPTION	[A] STAFF AS ADJUSTED	[B] STAFF RECOMMENDED
1	Staff Adjusted Test Year Revenues - 2011	\$ 1,646,545	\$ 1,646,545
2	Weight Factor	2	2
3	Subtotal (Line 1 * Line 2)	3,293,090	3,293,090
4	Staff Adjusted Test Year Revenues - 2011	1,646,545	
5	Staff Recommended Revenue		1,798,019
6	Subtotal (Line 3 + Line 4 + Line 5)	4,939,635	5,091,109
7	Number of Years	3	3
8	Three Year Average (Line 6 / Line 7)	1,646,545	1,697,036
9	Department of Revenue Multiplier	2	2
10	Revenue Base Value (Line 8 * Line 9)	3,293,090	3,394,073
11	Plus: 10% of CWIP		-
12	Less: Net Book Value of Licensed Vehicles	-	-
13	Full Cash Value (Line 10 + Line 11 - Line 12)	3,293,090	3,394,073
14	Assessment Ratio	20.0%	20.0%
15	Assessment Value (Line 13 * Line 14)	658,618	678,815
16	Composite Property Tax Rate	15.68%	15.68%
17	Subtotal	\$ 103,292	\$ 106,460
18	Tax on Parcels	\$ 2,384	\$ 2,384
19	Total Staff Test Year Adjusted Property Tax Expense (Line 17 + Line 18)	\$ 105,676	\$ 108,844
20	Company Proposed Property Tax	\$ 103,545	
21	Staff Test Year Adjustment (Line 19 - Line 20)	\$ 2,132	
22	Property Tax on Staff Recommended Revenue (Line 19)		\$ 108,844
23	Staff Test Year Adjusted Property Tax Expense (Line 19)		\$ 105,676
24	Increase in Property Tax Due to Increase in Revenue Requirement		\$ 3,167
25	Increase in Property Tax Due to Increase in Revenue Requirement (Line 24)		\$ 3,167
26	Increase in Revenue Requirement (Col B, line 5 less Col A, line 4)		\$ 151,474
27	Increase in Property Tax Per Dollar Increase in Revenue (Line 26 / Line 25)		2.09109%

REFERENCES:

Line 16: Composite Tax Rate, per Company
Line 20: Company Schedule C-1

Monthly Usage Charge	Present	Company Proposed Rates	Staff Recommended Rates
<u>Meter Size (All Classes):</u>			
5/8 x 3/4 Inch	\$ 28.29	\$ 28.29	\$ 27.10
5/8 x 3/4 Inch 2 Family	42.44	42.44	40.65
5/8 x 3/4 Inch 3 Family	56.58	56.58	54.20
3/4 Inch	42.44	42.44	42.44
3/4 Inch 7 Family	169.76	169.76	169.76
1 Inch	70.73	70.73	70.73
1 1/2 Inch	141.46	141.46	141.46
2 Inch	226.34	226.34	226.34
3 Inch	452.69	452.69	452.69
4 Inch	707.32	707.32	707.32
6 Inch	1,414.65	1,414.65	1,414.65
<u>Commodity Charge - Per 1,000 Gallons</u>			
<u>5/8" x 3/4" Meter and 3/4" Meter (All)</u>			
First 8,500 gallons	\$ 2.2000	N/A	N/A
8,501 to 16,000 gallons	2.3500	N/A	N/A
Over 16,000 gallons	2.5000	N/A	N/A
First 7,500 gallons	N/A	2.5000	N/A
7,501 to 15,000 gallons	N/A	3.1200	N/A
Over 15,000 gallons	N/A	3.7400	N/A
First 5,000 gallons	N/A	N/A	2.5000
5,001 to 12,000 gallons	N/A	N/A	3.1200
Over 12,000 gallons	N/A	N/A	3.7400
<u>1" Meter (Residential/Commercial)</u>			
First 20,000 gallons	2.2000	N/A	N/A
20,001 to 40,000 gallons	2.3500	N/A	N/A
Over 40,000 gallons	2.5000	N/A	N/A
First 22,500 gallons	N/A	N/A	3.1200
Over 22,500 gallons	N/A	N/A	3.7400
<u>1 1/2" Meter (Residential/Commercial)</u>			
1 gallon to 20,000 gallons	2.2000	N/A	N/A
20,001 gallons to 40,000 gallons	2.3500	N/A	N/A
over 40,000 gallons	2.5000	N/A	N/A
1 gallon to 45,000 gallons	N/A	N/A	3.1200
over 45,000 gallons	N/A	N/A	3.7400
<u>2" Meter (Residential/Commercial)</u>			
1 gallon to 20,000 gallons	2.2000	N/A	N/A
20,001 gallons to 40,000 gallons	2.3500	N/A	N/A
over 40,000 gallons	2.5000	N/A	N/A
1 gallon to 72,000 gallons	N/A	N/A	3.1200
over 72,000 gallons	N/A	N/A	3.7400
<u>3" Meter (Residential/Commercial)</u>			
1 gallon to 20,000 gallons	2.2000	N/A	N/A
20,001 gallons to 40,000 gallons	2.3500	N/A	N/A
over 40,000 gallons	2.5000	N/A	N/A
First 144,000 gallons	N/A	N/A	3.1200
Over 144,000 gallons	N/A	N/A	3.7400
<u>4" Meter (Residential/Commercial)</u>			
1 gallon to 20,000 gallons	2.2000	N/A	N/A
20,001 gallons to 40,000 gallons	2.3500	N/A	N/A
over 40,000 gallons	2.5000	N/A	N/A
First 450,000 gallons	N/A	N/A	3.1200
Over 450,000 gallons	N/A	N/A	3.7400
<u>6" Meter (Residential/Commercial)</u>			
1 gallon to 20,000 gallons	2.2000	N/A	N/A
20,001 gallons to 40,000 gallons	2.3500	N/A	N/A
over 40,000 gallons	2.5000	N/A	N/A
First 720,000 gallons	N/A	N/A	3.1200
Over 720,000 gallons	N/A	N/A	3.7400
Construction/Standpipe All Usage	4.0000	4.0000	4.0000

Other Service Charges

Establishment	\$ 25.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 50.00	\$ 50.00	N/A
Reconnection (Delinquent)	\$ 50.00	\$ 50.00	\$ 35.00
Reconnection (After hours)	\$ 75.00	\$ 75.00	N/A
Service Charge - After hours at customer request	N/A	N/A	\$ 50.00
Meter Test (calibration or leak detection)	\$ 50.00	\$ 50.00	N/A
Meter Test - Remove & Test Meter (Customer Request), if correct	\$ 35.00	\$ 35.00	\$ 40.00
Deposit Requirement	(a)	(a)	(a)
Deposit Interest	6.00%	6.00%	6.00%
Re-establishment (Within 12 months)	(b)	(b)	(b)
NSF Check (R14-2-409.F)	\$ 25.00	\$ 25.00	\$ 25.00
Deferred Payment, per month	1.50%	1.50%	1.50%
Meter Re-read (R14-2-408.C)	\$ -	\$ -	\$ -
Late Charge per month	(c)	(c)	(c)
Hourly Charge for after hours service at Customer Request	Cost	Cost	N/A
Water line crossing paved road	(d)	(d)	(d)
Charges for emergency service not caused by Company	Cost	Cost	Cost
Line Extension Agreement	Cost	Cost	Cost
Sprinkler rate	(e)	(e)	(e)
Master Metering	(f)	(f)	(f)
Meter installation tampering (cutting lock or angle meter stops)	Cost	Cost	Cost

- (a) Per Rule R14-2-403.B.
(b) Per Rule R14-2-403.D. Monthly minimum times the number of months off system.
(c) Creator of \$5.00 or 1.5% of unpaid balance.
(d) Customer expense to be done by contractor with no responsibility to the Co-Op.
(e) 1% of monthly minimum for a comparable meter connection, but no less than \$7.00 per month.
(f) Multiple dwelling on one meter. All dwellings, beyond direct connection which cross property lines, will be charged 100% of monthly minimum, and/or are required to have their own meter. If meter services more than one dwelling on property, second and each additional connection each pay 50% of monthly minimum for the size meter. Responsibility for payment remains with the master meter customer.

Service and Meter Installation Charges

Service Size	Total Present Charge	Proposed Service Line Charge	Proposed Meter Installation Charge	Total Proposed Charge	Recommended Service Line Charge	Recommended Meter Installation Charge	Total Recommended Charge
5/8 x 3/4 Inch	\$ 410.00			\$ 410.00	\$ 290.00	\$ 120.00	\$ 410.00
3/4 Inch	455.00			455.00	290.00	165.00	455.00
1 Inch	520.00			520.00	315.00	205.00	520.00
1 1/2 Inch	740.00			740.00	330.00	410.00	740.00
2 Inch Turbo	1,235.00			1,235.00	355.00	880.00	1,235.00
2 Inch, Compound	1,800.00			1,800.00	355.00	1,445.00	1,800.00
3 Inch Turbo	1,705.00			1,705.00	395.00	1,310.00	1,705.00
3 Inch, compound	2,340.00			2,340.00	395.00	1,945.00	2,340.00
4 Inch Turbo	2,700.00			2,700.00	610.00	2,090.00	2,700.00
4 Inch, compound	3,405.00			3,405.00	610.00	2,795.00	3,405.00
6 Inch Turbo	5,035.00			5,035.00	890.00	4,145.00	5,035.00
6 Inch, compound	6,510.00			6,510.00	890.00	5,620.00	6,510.00

Recommended Service Line Charges to include the actual cost incurred when road crossing is required

Offsite Facilities Hook-up Fee

Meter Size	Present	Proposed	Staff Recommended
5/8 x 3/4 Inch	\$ 1,875	\$ 1,875	\$ 1,875
3/4 Inch	2,250	2,250	2,250
1 Inch	3,750	3,750	3,750
1.5 Inch	7,500	7,500	7,500
2 Inch	12,000	12,000	12,000
3 Inch	22,500	22,500	22,500
4 Inch	37,500	37,500	37,500
6 Inch	75,000	75,000	75,000

Avra Water Co-op, Inc.
Docket No. W-012126A-11-0480
Test Year Ended: August 31, 2011

Schedule GWB-16
Surrebuttal

Typical Bill Analysis
General Service 5/8 x 3/4-Inch Meter

Company Proposed	Gallons	Present Rates	Proposed Rates	Dollar Increase	Percent Increase
Average Usage	9,221	\$ 48.68	\$ 52.41	\$ 3.73	7.65%
Median Usage	5,500	40.39	42.04	\$ 1.65	4.09%

Staff Recommended

Average Usage	9,221	\$ 48.68	\$ 52.77	\$ 4.09	8.39%
Median Usage	5,500	40.39	41.16	\$ 0.77	1.91%

Present & Proposed Rates (Without Taxes)
General Service 5/8 x 3/4-Inch Meter

Consumption	Rates	Rates	Increase	Rates	Increase
-	\$ 28.29	\$ 28.29	0.00%	\$ 27.10	-4.21%
1,000	30.49	30.79	0.98%	29.60	-2.92%
2,000	32.69	33.29	1.84%	32.10	-1.80%
3,000	34.89	35.79	2.58%	34.60	-0.83%
4,000	37.09	38.29	3.24%	37.10	0.03%
5,000	39.29	40.79	3.82%	39.60	0.79%
6,000	41.49	43.29	4.34%	42.72	2.96%
7,000	43.69	45.79	4.81%	45.84	4.92%
8,000	45.89	48.60	5.91%	48.96	6.69%
9,000	48.17	51.72	7.38%	52.08	8.13%
10,000	50.52	54.84	8.56%	55.20	9.27%
11,000	52.87	57.96	9.64%	58.32	10.32%
12,000	55.22	61.08	10.62%	61.44	11.27%
13,000	57.57	64.20	11.53%	65.18	13.23%
14,000	59.92	67.32	12.36%	68.92	15.03%
15,000	62.27	70.44	13.13%	72.66	16.69%
16,000	64.62	74.18	14.80%	76.40	18.24%
17,000	67.04	77.92	16.23%	80.14	19.54%
18,000	69.54	81.66	17.43%	83.88	20.62%
19,000	72.04	85.40	18.55%	87.62	21.63%
20,000	74.54	89.14	19.59%	91.36	22.57%
25,000	87.04	107.84	23.90%	110.06	26.45%
30,000	99.54	126.54	27.12%	128.76	29.36%
35,000	112.04	145.24	29.63%	147.46	31.61%
40,000	124.54	163.94	31.64%	166.16	33.42%
45,000	137.04	182.64	33.27%	184.86	34.89%
50,000	149.54	201.34	34.64%	203.56	36.12%
75,000	212.04	294.84	39.05%	297.06	40.10%
100,000	274.54	388.34	41.45%	390.56	42.26%

BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. W-02126A-11-0480
AVRA WATER CO-OP, INC., FOR A)
DETERMINATION OF THE FAIR VALUE OF ITS)
UTILITY PROPERTY AND FOR AN INCREASE)
IN ITS WATER RATES AND CHARGES FOR)
UTILITY SERVICES.)
_____)

SURREBUTTAL TESTIMONY

OF

MARLIN SCOTT, JR

UTILITIES ENGINEER

UTILITIES DIVISION

ARIZONA CORPORATION COMMISSION

OCTOBER 16, 2012

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**SURREBUTTAL TESTIMONY
AVRA WATER CO-OP, INC.
DOCKET NO. W-02126A-11-0480**

Recommendation

1. Staff still recommends that Avra Water Co-op, Inc. ("Co-op") file with Docket Control, as a compliance item in this docket, within 90 days of the effective date of a decision in this proceeding, at least seven Best Management Practices ("BMPs") in the form of tariffs that substantially conform to the templates created by Staff for Commission review and approval. These BMP templates are available on the Commission's website. The Co-op may submit the two approved Arizona Department of Water Resources BMPs as part of the seven and may request cost recovery of the actual costs associated with the implemented BMPs in its next general rate application.

I. INTRODUCTION

Q. Please state your name, place of employment and job title.

A. My name is Marlin Scott, Jr. My place of employment is the Arizona Corporation Commission ("Commission" or "ACC"), Utilities Division, 1200 West Washington Street, Phoenix, Arizona 85007. My job title is Utilities Engineer.

Q. Are you the same Marlin Scott, Jr. who submitted Direct Testimony on behalf of the Utilities Division?

A. Yes.

Q. What was the purpose of that testimony?

A. My Direct Testimony provided the Utilities Division Staff's ("Staff") engineering evaluation of Avra Water Co-op, Inc. ("Co-op") for this proceeding.

Q. What is the purpose of your Surrebuttal Testimony?

A. To provide Staff's response to the Co-op's Rebuttal Testimony on the issue of Best Management Practices ("BMPs").

II. BMPS

Q. Have you reviewed the rebuttal testimony of Chris Ward regarding BMPs?

A. Yes.

Q. What was Mr. Ward's comments regarding the BMPs?

A. Staff recommends that the Co-op file at least seven BMPs in the form of tariffs that substantially conform to the templates created by Staff for Commission review and approval. Mr. Ward stated that the Co-op does not agree with Staff's recommendation

1 because it adds unnecessary costs and is duplication of State regulatory oversight. Mr.
2 Ward also stated the Co-op is already enrolled with the Arizona Department of Water
3 Resources' ("ADWR") Modified Non-Per Capita Conservation Program ("Modified
4 NPCCP") that requires the Co-op to implement the Public Education Program ("PEP")
5 and one additional BMP, which is consistent with ADWR requirements and requiring
6 additional BMPs would be costly and not economically feasible. Mr. Ward concluded by
7 stating that Staff offered no justification for its seven BMP recommendation.
8

9 **Q. First, could you provide a brief background of the BMPs?**

10 A. Yes. In 2008, ADWR added a new regulatory program for the ADWR Third
11 Management Plan for Active Management Areas ("AMAs"). The new program, called
12 Modified NPCCP, addresses large municipal water providers (cities, towns and private
13 water companies serving more than 250 acre-feet per year) and was developed in
14 conjunction with stakeholders from all AMAs. Participation in the program is required for
15 all large municipal water providers in AMA's that do not have a Designation of Assured
16 Water Supply and that are not regulated as a large untreated water provider or an
17 institutional provider.
18

19 The Modified NPCCP is a performance-based program that requires participating
20 providers to implement water conservation measures that result in water use efficiency in
21 their service areas. A water provider regulated under the program must implement a
22 required PEP and choose one or more additional BMPs based on its size, as defined by its
23 total number of water service connections. The provider must select the additional BMPs
24 from the list included in the Modified NPCCP Program. The BMPs are a mix of
25 technical, policy, and information conservation efforts.
26

1 Although the implementation of the Modified NPCCP is required of large municipal water
2 providers within an AMA, the Commission has adopted the BMPs for implementation by
3 Commission regulated water companies.

4
5 **Q. Could you also provide a background on how Staff decided on the number of BMPs**
6 **it is recommending in this case?**

7 A. Yes. In April of 2011, Staff had in-house discussions regarding the implementation of
8 BMPs. Based on the knowledge of ADWR's requirements to implement the Modified
9 NPCCP (a PEP and one, five or ten additional BMPs based on the customer base size) and
10 the understanding of the Commissioners' desire for additional BMPs above a water
11 company's ADWR requirements, it was decided by the Utilities Director to recommend
12 the number of BMPs based on the size of a water utility as follows:

13 Class A – 10 BMPs

14 Class B – 7 BMPs

15 Class C – 5 BMPs

16 Class D & E – 3 BMPs

17 With the adoption of this guideline, Staff was primarily looking for consistency when
18 recommending the number of BMPs to be implemented for a water utility.

19
20 **Q. Mr. Ward stated that filing the BMPs with the Commission is duplication of State**
21 **regulatory oversight. Do you agree?**

22 A. No, I do not. Basically, the difference between the ADWR and ACC filing is the ACC
23 requires the BMPs to be filed in tariff form. The ACC requires the BMPs be filed in tariff
24 form for implementation, notification of water company/customer requirements, and
25 notification of steps for service termination, if needed. The ADWR filing does not
26 address these issues.

1 **Q. Are you aware of another State regulation of which the Commission requires water**
2 **utilities to file a tariff with the ACC for implementation?**

3 A. Yes, it would be the Backflow Prevention Tariff ("BPT"). The backflow prevention
4 program falls under the Arizona Department of Environment Quality ("ADEQ")
5 regulation and if a water utility is to implement this ADEQ requirement, the water utility
6 must file this BPT for implementation, notification of water company/customer
7 requirements, and notification of steps for service termination, if needed.
8

9 **Q. Based on the Co-op's rebuttal testimony, has Staff's recommendation regarding the**
10 **BMPs changed?**

11 A. No. Staff still recommends that the Co-op file with Docket Control, as a compliance item
12 in this docket, within 90 days of the effective date of a decision in this proceeding, at least
13 seven BMPs in the form of tariffs that substantially conform to the templates created by
14 Staff for Commission review and approval. These BMP templates are available on the
15 Commission's website. The Co-op may submit the two approved ADWR BMPs as part of
16 the seven and may request cost recovery of the actual costs associated with the
17 implemented BMPs in its next general rate application. Staff also notes that several of the
18 BMPs available could be implemented by the Co-op at little or no additional costs.
19

20 **Q. Does this conclude your Surrebuttal Testimony?**

21 A. Yes, it does.